
ARNOLD & PORTER LLP

Daniel R. Waldman
Dan_Waldman@aporter.com
202.942.5804
202.942.5999 Fax
555 Twelfth Street, NW
Washington, DC 20004-1206

March 14, 2005

Richard A. Shilts
Acting Director
Division of Market Oversight
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, D.C. 20581

James L. Carley
Director
Division of Clearing and Intermediary Oversight
Commodity Futures Trading Commission
Three Lafayette Centre
1155 21st Street, N.W.
Washington, D.C. 20581

Re: **Global Clearing Link -- Phase II**

Dear Messrs. Shilts and Carley:

The Order issued by the Commodity Futures Trading Commission (the Commission) on February 4, 2004, designating U.S. Futures Exchange, L.L.C (USFE) as a contract market, was based, in part, on certain undertakings of USFE and its derivatives clearing organization, The Clearing Corporation (CCorp). Among these were USFE's undertaking not to utilize a cross-border clearing link without prior Commission approval or permission. By this letter, USFE seeks the Commission's permission to so utilize Phase II of the Global Clearing Link ("Link" or "GCL").¹

This letter is being submitted in reliance upon, and incorporates, CCorp's submissions to the Commission with respect to Phase II of the Global Clearing Link. CCorp's Phase II submission describes the operation of Phase II of the Global Clearing Link and analyzes CCorp's continuing ability to meet the requirements of the Core Principles under the terms of the Link arrangements. This letter also incorporates

¹ Appended hereto as Attachment A for the Commission's information are draft USFE rules which, following Commission permission to USFE to utilize the link, would enable USFE to do so.

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CCorp's Phase I submission which includes further explanation of the operation of the Link. The explanations and analysis in this letter are also intended to supplement CCorp's submission.

USFE Draft Rule Amendments to Effectuate the Link

USFE anticipates making a number of changes to its rules in order to utilize Phase II of the Global Clearing Link. The following is a brief explanation of those changes:

Business Day; Trading Phases (Proposed Rule 401): Rule 401 will be amended to reflect the addition of a definition of "Business Day Trading Phases." As amended, this rule describes the relationship between a trading day on USFE and the clearing cycle. Moreover, this rule, as amended, makes clear that USFE will not have active trading during the period that the Cross-listed products which it lists for trading are traded on Eurex. Orders will not automatically be moved from one market to the other when trading ends or is in hiatus at one exchange and opens on the other.

Position Limits (Rule 412): Rule 412 as proposed to be amended authorizes USFE to establish position limits in Euro-denominated products in combination with positions held on the Linked Exchange. The ability of the Exchange to impose position limits which take into account positions which a trader holds or executes on Eurex will provide USFE with an effective tool to use in appropriate instances to fulfill its responsibilities under Core Principles 3 and 5. In this respect, USFE expects that it will include position limits in the terms and conditions for all Euro-denominated Fixed Income products that it lists for trading.

Off-set (Rule 419): Rule 419 authorizes USFE Members to off-set positions entered into on USFE with like contracts entered into on Eurex that are carried by the same Clearing Member or by Eurex Clearing, AG ("Eurex Clearing") as CCorp's special clearing member. Eurex Clearing similarly intends to recognize the ability to off-set USFE and Eurex contracts. Rule 419 makes no change with respect to the requirements of Commission Rule 1.46 regarding the mechanics of off-setting particular customer positions.

Clearing and Financial Integrity of Contracts (Part 5): Part 5 contains rules effectuating the Link Clearing Agreement between CCorp and Eurex Clearing in a number of respects. Most importantly, Part 5 sets forth USFE's authority to enforce its rules *vis a vis* those carrying USFE positions over the Link. In particular, the following USFE rule provisions, among others, apply to all those carrying USFE positions via the Link

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regardless of whether they are members of the Exchange: USFE reporting requirements; required response to USFE requests for information; prohibition on violating USFE or CCorp rules or the decisions of USFE; and prohibitions on participating in any violative trade practices. Moreover, USFE Rule 616, permitting the Exchange to take certain disciplinary actions against non-members for violations of USFE rules or of the Act, will also apply.

By applying the rules specified above to those executing transactions on USFE and carrying positions via the Link, USFE has ensured its ability to enforce its rules with respect to all Link-related transactions.

Applicable law (Rule 510): USFE Rule 510 provides that disputes arising in connection with the clearing of positions executed on USFE shall be resolved under CCorp's rules and policies. As proposed to be amended, USFE Rule 510 makes clear that pursuant to CCorp's rules and policies, disputes involving specified clearing functions related to Cross-listed contracts will be resolved under the laws of the Federal Republic of Germany. These are disputes involving the following functions: payment and collection of variation settlement amounts; the exercise and assignment process of options; the notification and allocation process for deliveries; physical delivery; give-up and take-up processing; cash payments; trade and position management (e.g., correction of errors; transfers and close-out of positions, etc.); reporting and timelines; and holiday calendars.

Public Interest Considerations.

USFE believes that granting it permission to effectuate Phase II of the Global Clearing Link clearly is in the public interest. Nothing in the operation of the Link or in the USFE rule changes to effectuate the Link affects USFE's ability to operate consistent with the Core Principles. Moreover, the Link will increase competition and liquidity to market participants in those products listed for trading on USFE. Finally, the Commission in approving past links has required that linked markets have in place appropriate agreements or arrangements for information sharing and regulatory cooperation. As described more fully in the CCorp submission, USFE will have in place arrangements for information sharing and regulatory cooperation under Phase II of the Global Clearing Link that equal or surpass the arrangements approved by the Commission for all prior clearing links.

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We appreciate the Divisions' consideration of this matter. Please feel free to call the undersigned at 202-942-5804 or James Falvey at 312-544-1067, if you have any questions or if you would like to discuss these matters further.

Respectfully submitted,



Daniel R. Waldman

Enclosure Attachment A; *U.S. Futures Exchange, L.L.C. Rules*

Cc (w/o enclosure): Acting Chairman Sharon Brown-Hruska
Commissioner Walter L. Lukken
Commissioner Michael V. Dunn
Commissioner Fred Hatfield
Gregory Kuserk
Gregory G. Mocek
Patrick J. McCarty